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SUBJECT: PERSONAL FINANCE IN JORDAN: SAVING LESS, BORROWING MORE

REFS: A) AMMAN 4774

B) AMMAN 4575  
C) AMMAN 4559  
D) AMMAN 4207  
E) AMMAN 3770

¶1. (U) Summary: On average, Jordanian households spend \$1900 more than they earn annually, and pay for the gap with loans, real estate sales, and remittances. Consumer use of banks is high, more as a vehicle for debit and credit cards than for savings. Mortgages continue to grow in popularity as real estate remains the investment of choice in Jordan. End Summary.

#### Household Spending Greater than Household Income

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¶2. (U) According to Jordan's Department of Statistics (DOS), out of a population of 5.7 million people, Jordan has approximately one million family households with an average 5.7 members. A recent DOS survey of expenditure and income revealed that average household income increased 11% from \$7,800 annually in 2002 to \$8,700 in 2006. During the same period, household expenditures increased 21 percent from \$8,700 to \$10,600 annually. Talal Touqan, Head of Research and Financial Analysis at Ahli Investment Banking, agreed that Jordanian consumption is growing, particularly as Jordanians' exposure to international products grows.

¶3. (U) The DOS survey also found that food accounted for the largest expense, equaling 37% of total expenditures. Recent increases in food prices have created tensions in Jordan and were a key issue in recent elections (Ref C). The remaining categories were transportation and telecommunications 16%; housing 16%; education 7%; fuel and utilities 6%; health 3%; furniture 2% and entertainment 2%. The report also found that between 2002 and 2006, there were large increases in household ownership of mobile phones (from 38 to 84 percent) (Ref E); satellite television (from 37 to 84 percent); and computers (from 15 to 32 percent).

#### Little Savings, but Great Bank Use

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¶4. (U) DoS Director General Ghazi Shbaikat said there are no savings - even for retirement - as far as most Jordanian households are concerned, due to the high cost of living. Sahel Annabi, founder of a personal financial advisory firm and publisher of Jordan's first personal finance magazine, told Econoff that while the multi-generational structure of Jordanian families can ease finances, budgeting and planning skills are typically weak and these responsibilities are traditionally left to the father.

¶5. (U) Jordanians are generally financing consumption through bank

loans, the sale of real estate, and remittances, estimated at \$2.54 billion in 2006 (Ref D), or approximately \$2,540 per household. This has led to a high use of consumer banks in Jordan, even in rural communities, within the last seven years. Kholoud Saqqaf, Acting Executive Manager of the Banking Supervision Department at the Central Bank of Jordan (CBJ), confirmed that there are currently 24 licensed banks in Jordan, all of which provide retail banking services. Standard & Poor's and Moody's, in their country ratings, have indicated that Jordan has too many small banks. Indeed, the top three banks in Jordan have a market share of just over 40 percent, and CBJ is trying to encourage greater consolidation by increasing the amount of capital held by a bank to JD 40 million and implementing programs to raise banking standards and governance.

¶16. (SBU) Saqqaf said that the CBJ and Jordanian banks are very conservative relative to other countries. Complex financial products such as hedge funds are not available in Jordan. At the average consumer level, this conservatism extends to paying attention to bounced checks, which are tracked through an IT system and shared with all banks. Customers who bounce three checks are not issued any additional checks, and those who bounce ten checks are not eligible for loans.

#### Loans -----

¶17. (U) Touqan said that most bank loans are for commercial purposes. Consumer loans are most often five-year loans for cars at 14-15 percent interest. Jordanians also tend to take out personal loans, typically for 3-4 years at 10 percent interest, which are used to finance weddings, investments, and seasonal heating fuel expenses. Touqan also noted that a number of foreign banks in Jordan have begun offering student loans.

¶18. (SBU) Saqqaf said that Jordan has 20 additional licensed lending  
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institutions which are not banks and are most active in car loans and leasing. They can make real estate loans, but not for any real estate that is held more than two years. Annabi is nervous about the growth of borrowing and said that most Jordanians need to pay more attention to "debt management" than to wealth management.

#### Debit and Credit Cards -----

¶19. (U) An October 2007 report by Oxford Business Group estimated that there are 2.9 million credit cards in circulation in Jordan. Hani Al-Qadi, General Manager, Arab Jordan Investment Bank and Visa Inc., said that credit cards were first introduced to Jordan for businesses serving foreign tourists. As the credit card business has matured, its use has extended to Jordanians who are now using credit cards for a growing percentage of their purchases.

¶10. (SBU) First marketed in Jordan as debit or ATM cards, Visa now has a 90 percent market share with 15,000 merchants accepting Visa credit cards, said Qadi. Sameer Jabari, CEO of a banking software firm, cautioned however, that those figures dramatically overstated Visa's market share since most of Visa's cards are still used only as an ATM card, and that the majority of the 300,000 MasterCard cards were used as a credit card. Qadi said that Visa's goal in Jordan is now more credit purchases per card and not greater card penetration. He said Visa recognizes that North America is a saturated credit market and that its growth will come from developing economies. Samer Sunnugrot, Deputy Chief Executive Officer of Ahli Bank, agreed that credit cards represented the biggest growth opportunity in retail banking in Jordan.

#### Development of Mortgages and Real Estate Sector -----

¶11. (SBU) Financial experts in Jordan agree that real estate is a more common investment than stocks, bonds or other financial tools, in part due to the ease of getting a real estate loan. Mortgages have become more common in Jordan over the past seven years, including the addition of long-term loans for 20 years covering

70-80 percent of the purchase price. Interest rates today are fixed between 6-8 percent, and adjustable mortgages are available. Touqan mentioned some banks have been offering mortgages with a smaller down payment, but that problems in the American mortgage market are making Jordanian bankers more cautious. After Jordan's stock market fell 33 percent in 2006, many middle-class Jordanians who typically traded stocks transferred their money to real estate which is perceived as less risky.

¶12. (SBU) Sunnuqrot speculated that Jordanian home ownership is now about 60 percent, with more than half mortgaged. Nashat Masri, the founder of a private equity investment firm in Amman, and many other Post contacts believe that Jordan is currently experiencing a housing bubble. Management consultant Sameer Jaber said apartments in affluent areas that cost USD 112,000 seven years ago now cost USD 350,000. Increases in both commercial and residential real estate have been attributed to petrodollars entering Amman and the influx of Iraqis (Ref A). Should the bubble burst and prices fall, Masri said that many Jordanians will still have made a lot of money, because they purchased the houses at a low cost.

¶13. (U) Saqqaf also noted that the CBJ has placed limits on banks by allowing only 20 percent of deposits to be used for real estate activities. She estimated that nationwide, 11-12 percent of deposits are used for real estate loans. Masri, who also serves on the board of directors of a bank, agreed that there have not been many loan defaults because the banks have been very conservative in granting mortgages. Saqqaf and Sahel predicted that as inflation increases, which it is expected to do in 2008 (Ref B), the mortgage default rate will go up. Sunnuqrot added that the launch of Darkom, Jordan first housing loan insurance company, in the summer of 2007 and the seven-year old Jordan Mortgage Refinance Institution have both lessened the risk to banks. Sunnuqrot said that demand for housing in Jordan will stay high until at least 2010, when the end of a rent control program will likely end and cause dramatic increases in rent prices.

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HALE